



Finance Bill 2023

Commentary on key tax proposals



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EXECUTIVE SUMMARY

This document contains summary of the key tax amendments proposed by the **Finance Bill 2023 ('the Bill')**, along with our comments.

The Federal Budget 2023-24 has been announced during times of severe economic difficulties with an aim of increasing tax collections and satisfying IMF in order to unlock much needed funds. Whether the proposals made achieve this aim remains to be seen.

The proposals made under the Bill are similar to measures already seen in prior tax policies. Once again proposals have been made to increase tax burden on existing taxpayers to meet collection targets rather than increase tax base for this purpose. In this regards there is an **increase in withholding tax rates** in almost all payments for goods and services by withholding agents **by 1%**.

Furthermore, scope of **super tax on high income earners** introduced last year has been proposed to be increased with introduction of 3 new tax slabs resulting in maximum super tax increasing from 4% to **10%**.

Previously withdrawn advance taxes have been proposed once again namely advance tax on **bonus shares** at **10%** as well as advance tax on **cash withdrawals** by non-filers at **0.6%**.

A number of reliefs have also been proposed primarily targeting providers of **IT services and IT enabled services**, who are proposed to be included within classification of SMEs allowing a number of tax relaxations, and persons within **construction sectors** who are allowed **tax credit** for new projects.

Reliefs are also proposed to increase **foreign remittances** by increasing restriction limit for inquiries u/s 111 from PKR 5 Million to **USD 100,000**, as well as proposal for exemption on **2% advance tax on purchase of immovable property by non-residents**.

The remaining document provides further explanation of these and other proposals within the Bill along with our comments thereon. This document is purely for provision of information to the general public, and is not intended to provide consultation or advice on any specific matter.

For any queries or feedback feel free to contact us.

Warm Regards,

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INCOME TAX

1. INCREASE IN WITHHOLDING TAXES (WHT)

INCREASE IN TAX RATES

A number of existing withholding tax rates have been proposed to be **increased** by **1%**, as follows:

Payments to Permanent Establishments of non-resident persons (Section 152)

Description of payment	Legal status of payee	Tax Rate (Existing)	Tax Rate (Proposed)
Purchase of goods	Company	4%	▲ 5%
	Other than Company	4.5%	▲ 5.5%
Purchase of specified services	All	3%	▲ 4%
Purchase of other services	Company	8%	▲ 9%
	Other than company	10%	▲ 11%

Payments to resident persons (Section 153)

Description of payment	Status of payee	Tax Rate (Existing)	Tax Rate (Proposed)
Purchase of Goods	Company	4%	▲ 5%
	Other than company	4.5%	▲ 5.5%
Purchase of specified services	All	3%	▲ 4%
Purchase of other Services	Company	8%	▲ 9%
	Other than company	10%	▲ 11%
Execution of contracts	Company	6.5%	▲ 7.5%
	Other than company	7%	▲ 8%

IMPOSITION OF ADDITIONAL WITHHOLDING TAXES

Bonus shares

Bonus shares have been proposed to become **taxable** with **10% final tax** being imposed. This tax shall be collected from the shareholders and for this purpose companies are entitled to withhold 10% of the bonus shares to be issued to the shareholders. Companies can dispose these withheld shares in case of non-payment of tax by shareholders.

Bonus shares are also proposed to be included within the head of '**Income from Other Sources**' meaning that in case of failure to withhold tax in respect of bonus shares, the value of bonus shares received by shareholders shall be treated as taxable income to be taxed under Normal Tax Rates.

Cash withdrawal by non-filers

Advance tax at **0.6%** is proposed to be re-introduced in case of **cash withdrawals** by non-filers, exceeding Rs. 50,000 in aggregate in a day.

Issuance of visa for foreign domestic workers

Introduction of advance tax of PKR 200,000 in case of issuance of **visa for foreign domestic workers**, has also been proposed.

OUR COMMENTS

Increasing reliance on indirect taxation is seen once again in the Bill, with increase in WHT rates across the board, with limited exceptions, increasing burden of existing taxpayers. This along with imposition of taxation on bonus shares results in increasing burden on corporate sector.

Despite the imposition of advance tax on cash withdrawals for non-filers being proposed, it is unlikely for a significant increase in tax base to be witnessed as a result.

2. ADDITIONAL TAXATION ON 'EXTRAORDINARY GAINS'

Additional taxation has been proposed to be applied **retrospectively** for preceding 5 tax years, in case of **'unexpected profits or gains'** due to economic factors. Federal government has been empowered to define the scope, timing, mode and extent of tax applicable under this section, with a restriction of tax rate not to be more than 50%.

OUR COMMENTS

This section has been added to tax exogenous income earned due to macroeconomic factors, with retrospective application. While the specific extent of this taxation remains to be expanded on by the government, it mainly relates to unexpected gain earned in past few years due to significant price fluctuations and changes in exchange rates.

Implementation of this proposal may be difficult due to the retrospective nature and the fact that inclusion of such unrealized gains as 'income' may be challenged under constitutional grounds.

3. ENHANCEMENT OF SUPER TAX ON 'HIGH INCOME EARNERS'

The maximum rate of super tax has been increased from 4% to 10% with introduction of 3 new slab rates, as follows:

Income (PKR)	Tax Rate (Existing)	Tax Rate (Proposed)
< 150 Million	0%	— 0%
150 – 200 Million	1%	— 1%
200 – 250 Million	2%	— 2%
250 – 300 Million	3%	— 3%
300 – 350 Million	4%	— 4%
350 – 400 Million		▲ 6%
400 – 500 Million		▲ 8%
> 500 Million		▲ 10%

The super tax rates proposed to apply to all sectors, including banking companies.

OUR COMMENTS

At time of introduction of super tax in Finance Act 2022, a one-time higher rate of 10% was imposed on specific sectors for tax year 2022 only. However, through the Finance Bill 2023 the maximum rate has been increased to 10% from tax year 2023 onwards. This means that the effective tax rate has increased by 10% for most blue chip companies as all of these enjoy profitability of more than Rs. 500 Million.

4. INTRODUCTION OF TAX CREDITS

CONSTRUCTION OF HOUSE

Proposal has been made for introduction of tax credit to an individual in case of completion of construction of a **new residential house**, applicable from tax year 2024 till tax year 2026.

Tax credit proposed is equal to 10% with a maximum of Rs. 1 Million.

NEW PROJECTS BY BUILDERS

Tax credit proposed for **builders registered as DNFBPs** in respect of business income from construction of **new construction projects**, applicable from tax year 2024 till tax year 2026.

Tax credit proposed is equal to 10% with a maximum of Rs. 5 Million.

YOUTH ENTREPRENEURS

Tax credit on business income is proposed for **'youth entrepreneurs'** establishing business after 1st July 2023. The rate of tax credit proposed is as follows:

Legal Status	Tax Credit	Maximum tax credit
Individuals or AOPs	50%	Rs. 2 Million
Companies	50%	Rs. 5 Million

For the purpose of this section a 'youth entrepreneur' means a person aged 30 or less, on first day of tax year.

This tax credit does not apply in case tax credit of **women enterprises** is also applicable.

OUR COMMENTS

Tax relief has been proposed to boost construction sector who will benefit from reduced tax liability for new projects till tax year 2026 provided that the persons are registered as DNFBP.

Tax credits on youth entrepreneurs is also an appreciated step facilitating young individuals carrying on businesses.

5. RELIEFS TO IT RELATED SERVICES

Providers of IT services and IT enabled services registered with PSEB are proposed to be included within definition of **'Small and Medium Enterprises'**. Accordingly existing reliefs provided to SMEs would apply to them as well such as option to be taxed at fixed tax rate, non-application of minimum turnover tax, and exemption from selection for audit.

Condition of filing of sales tax returns has been proposed to be withdrawn for benefit of withholding tax being treated as **final tax**, in case of exports of computer software, IT services and IT enabled services.

OUR COMMENTS

As has been seen in prior tax policies, further concessions have been provided to IT sector which has been a growing sector for the Pakistani economy. Measures such as relaxation of requirement for sales tax filing and availing of reliefs of SMEs which had previously been available only to manufacturers, will further boost the IT sector.

6. ENHANCEMENT OF SCOPE OF SMALL AND MEDIUM ENTERPRISES (SME)

The limit for classification as a SME has been increased from turnover of Rs. 250 Million to **Rs. 800 Million**, enhancing the coverage of reliefs provided to SMEs.

To give effect to the enhancement, additional tax slab has been proposed for SMEs with turnover between Rs. 250 Million and Rs. 800 Million at **20% of taxable income**, with an option to be taxed at final tax rate instead at **0.75% of turnover**.

OUR COMMENTS

The overall scope of SMEs has been expanded by introducing another tax slab for businesses earning turnover between Rs. 250 Million and Rs. 800 Million. Not only would this be beneficial to existing manufacturers who can be classified as SMEs, but also providers of IT related services who are also included within definition of SMEs. Tax liability for such persons can be restricted to a maximum of 20% of taxable income or 0.75% of turnover, if opted.

7. RELIEF FOR NON-RESIDENTS

ENHANCEMENT OF FOREIGN REMITTANCE LIMITED U/S 111

Under section 111, sources of **foreign remittances** into Pakistan are exempt from inquiry from tax authorities subject to limits prescribed. This limit has been proposed to be greatly increased from PKR 5 Million to **USD100,000**.

EXEMPTION FROM ADVANCE TAX ON PURCHASE OF IMMOVABLE PROPERTY

2% advance tax on purchase of immovable property has been proposed to be exempted for **non-residents** holding POC, NICOP or CNIC where such immovable property is purchased through a **Foreign Currency Value Account (FCVA)** or **NRP Rupee Value Account (NRVA)** maintained with authorized banks.

OUR COMMENTS

Reliefs for non-residents have been provided in a bid to increase much needed foreign remittances within Pakistan. While enhancement of limit u/s 111 can result in increase in foreign remittances, it also opens the doors for further misuse of this section.

Abolishment of advance tax on purchase of property is a welcome step for encouraging investment in Pakistani real estate sector.

8. OTHER PROPOSALS (INCOME TAX)

In addition to the proposals described above, the following proposals have also been made:

- Expansion of definition of '**Associates**' to include persons entering into transactions with other persons who are residents of '**zero taxation regimes**'.
- Inclusion of super tax on **high income earners** for purposes of **advance quarterly tax** u/s 147.
- Proposal for tax exemptions and other reliefs for investors of Reko Diq project in Baluchistan.
- Lower **minimum turnover tax** rate proposed for **listed companies** (other than those already subject to lower rate) from 1.25% to **1%**.
- Increase in advance tax on **remittances abroad through debit/credit card and prepaid cards**, from 1% to **5%**.
- Extension of **exemption** of profit on sale of immovable property to **REIT scheme** for another year till tax year 2024.
- Tax **exemption** for newly set up **agro based SME** set up in rural areas, for a period of 5 years.
- For **banking companies** a reduced tax rate of **20%** instead of 39% is proposed for **additional advance for IT services and IT enabled services**, for the tax years 2024 and 2025.
- Applicability of reduced tax rate of **0.25%** in case of **exporters registered with PSEB** proposed to be restricted till tax year 2026.

SALES TAX

1. RELIEF FOR IT RELATED SERVICES

Similar to Income Tax reliefs, a number of sales tax reliefs have also been proposed to be provided to **IT related services**, as follows:

- Exemption of sales tax on **import of equipment** by **PSEB registered software exporters**.
- Reduction in sales tax on **system development consultants** from 16% to **15%**.
- Enhancement of IT related services taxed at lower sales tax of 5%.

OUR COMMENTS

Similar to income tax reliefs, some sales tax relaxations have also been provided to IT related services in order to boost this sector.

2. REDUCED SALES TAX ON RESTAURANT IN CASE OF PAYMENTS THROUGH DEBIT/CREDIT CARDS

In case of payment through **debit/debit cards or QR scanning** in restaurants, cafes, coffee shops or similar establishments, sales tax is proposed to be reduced from 15% to **5%**.

In case of cash payments rate shall remain at 15%.

OUR COMMENTS

Measure to increase payments through debit/credit cards, instead of cash payments can be seen through this proposal, in order to increase transactions flow through banking channels.

3. OTHER PROPOSALS (SALES TAX)

In addition to the proposals described above, the following proposals have also been made:

- Restriction of refund and input tax for IT services and IT enabled services taxed at lower sales tax of 5%.
- Criteria of shop area for classification as Tier-1 retailer proposed to be withdrawn.
- Increase in sales tax on POS integrated retailers of leather and textile goods, from 12% to 15%